



California High Speed Rail Authority

Organizational Assessment

Board Workshop Briefing – October 1, 2009

ADVISORY – STATE AND LOCAL GOVERNMENT SERVICES / INFRASTRUCTURE ADVISORY SERVICES

Agenda

	Slides
Background and Scope of Services	2 - 3
Methodology Summary	4 - 6
Current-state Assessment	7 - 8
Interview and Benchmarking Observations	9 - 10
Gap Analysis	11 - 14
Next Steps	15

Objective: Assess Staffing Needed to Develop & Implement the High Speed Train

KPMG is assisting the Authority in its determination of which functions it should perform internally and which it should consider contracting out to other state agencies or private entities. Issues examined include:

- Legal authorization and responsibilities of the Authority
- Other expectations (political, environmental, etc.) of the Authority
- Strategic goals and direction of the Authority
- Tactical and business plans of the Authority
- Authority's short- and long-term vision of permanent staffing versus contracting
- Current organizational and management structure of the Authority
- Organizational structures and leading practices for similar "mega-projects," particularly in the high-speed rail sector

California High Speed Rail Authority is in Transition

The Authority must evolve from a Project *Planning* organization to a Project *Implementation* organization

- The objective of the Organizational Assessment is to facilitate the Authority's effective transition and ultimate success
- The time-frame for evaluation is five years – to encompass the start of construction, but not operations

The scope, complexity and magnitude of the California High Speed Rail Project place it in the category of “mega-projects”

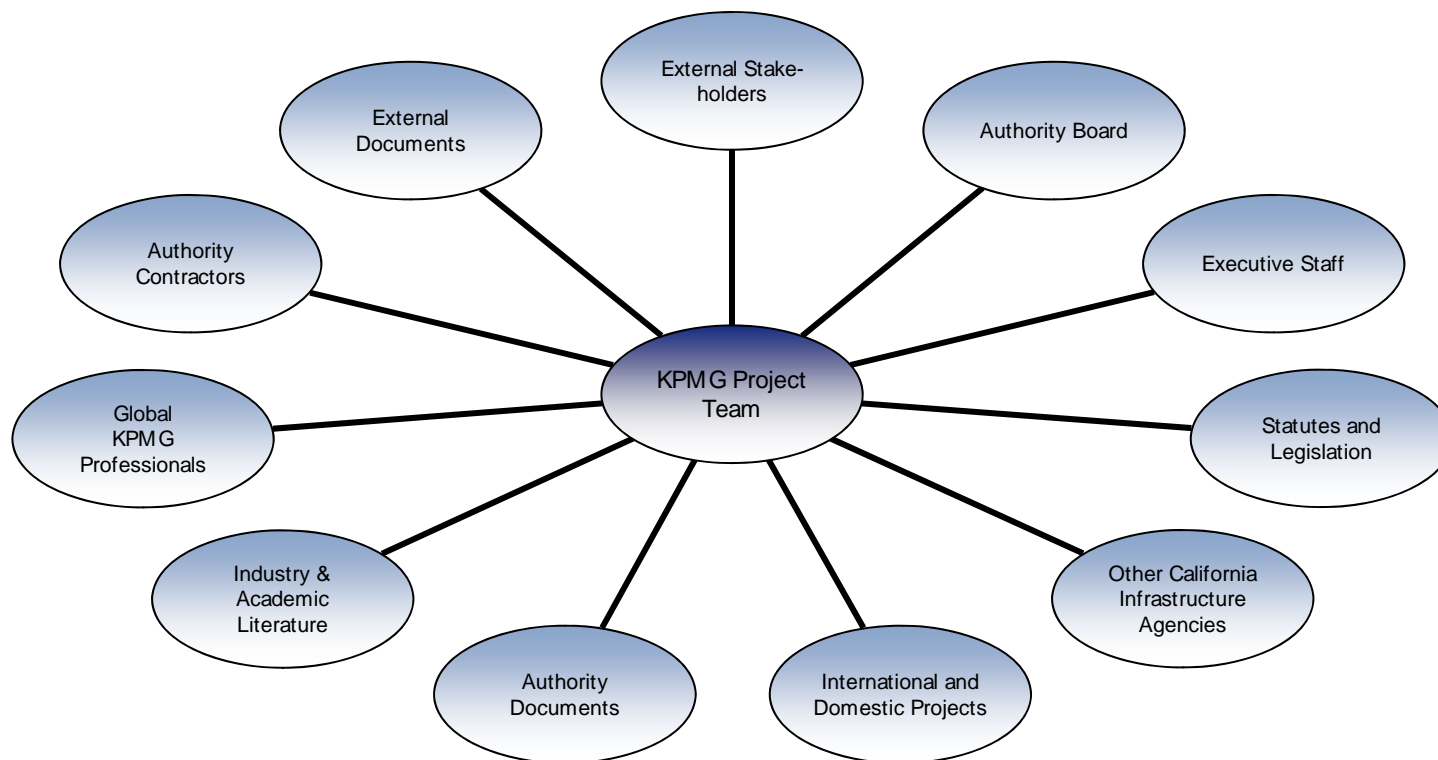
- The Project extends throughout the State, touching at least two dozen cities over the course of more than 800 miles
- Multiple layers of regulatory approval and multiple sources of funding add complexity and uncertainty
- Implementation time-frame for the Project spans well more than a decade
- Accountability is a high priority among Authority leadership and stakeholders

Past state staffing levels were minimized, with heavy reliance on contracting

- Private sector contractors and personnel from other state and local agencies have provided essential services
- Future activities require both expanded Authority staffing and expanded contracted staffing
- Objective is to establish a proper balance and institute appropriate roles for the respective parties
- Accountability to the public interest is a key criteria for evaluating the appropriate future staffing level and structure

KPMG's Organizational Assessment Draws from Many Sources

Approach combines reviewing documents, interviewing key players, benchmarking with comparable organizations, and drawing on KPMG's global network of subject matter professionals



Benchmarks Sought from Transportation Sector and Global “Mega-Projects”



Methodology Summary

Benchmark Agencies Were Diverse, but Primarily in Rail and Transportation

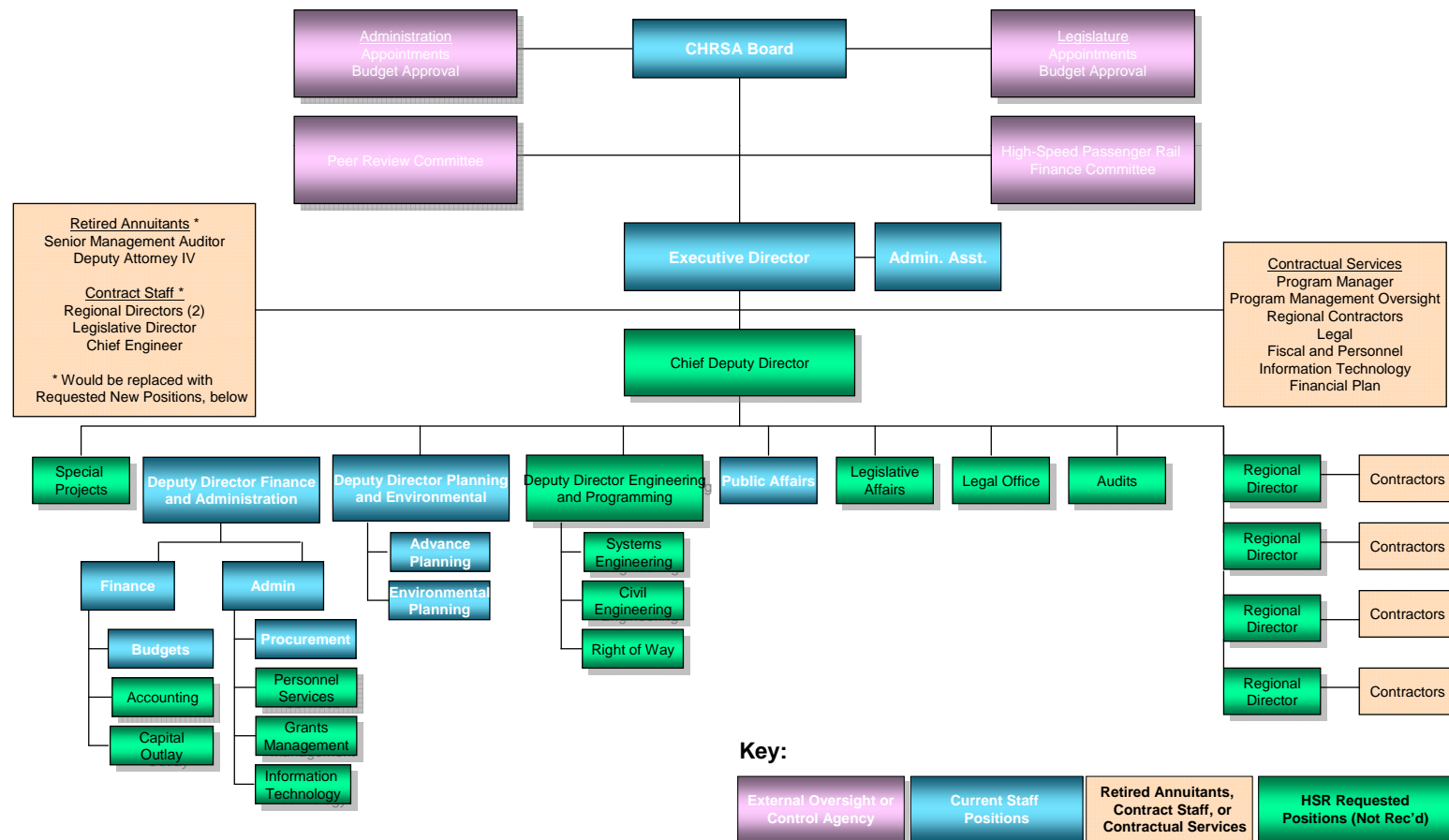
International Infrastructure Organizations	Country	Domestic Infrastructure Organizations	State / Region
RAVE (HSR)	Portugal	California Dept. of Transportation	California
Crossrail	United Kingdom	California Dept. of Water Resources	California
TGV – SNCF / RFF	France	California Housing Finance Agency	California
AVE (HSR) – RENFE / ADIF	Spain	CalTrain / SamTrans	Bay Area
Singapore Land Transit	Singapore	Florida's Turnpike Enterprise	Florida
Trem Bala (ANTT) (HSR)	Brazil	LA Metropolitan Transportation Authority	So. California
High Speed Rail South (ProRail)	Netherlands	Metropolitan Transportation Commission	Bay Area
Deutsche Bahn (DB) / ICE (HSR)	Germany	Orange County Transportation Authority	So. California
Japanese High Speed Rail	Japan	San Diego Association of Governments	So. California
Taiwan Bureau of High Speed Rail	Taiwan		
Québec City – Windsor Corridor HSR	Canada		
Irish Rail Procurement Agency	Ireland		

Current-state Assessment

The Authority Must Obtain Support from the Administration and Legislature

The Authority has been operating with less than 11 full-time positions, augmented by retired annuitants, contract staff, and contractual services; A request for additional positions in the 2009-10 budget was not fully approved

California High Speed Rail Authority Staffing – Proposed 2009-10 Fiscal Year



Current-state Assessment

Contractors Still Fill Many Vital Roles

Roles	Firms	Key Services / Duties
Program Manager	Parsons Brinckerhoff	Overall program management, including: plans; control systems; risk management plan; project insurance; quality management, public education, participation and outreach; design standards and coordination; project-level preliminary engineering /EIR/EIS management; and other program and project management services throughout design, pre-construction, construction, testing/pre-commissioning, and operations phases.
Program Management Oversight	Vacant	Monitoring for conformance to approved schedules, budgets, and plans; includes continuous monitoring of the Program Manager's performance to efficiently and effectively implement the project.
Regional Contractors	STV Inc.; HMM; HNTB; DMJM; URS; AECOM USA Inc; Parsons; Newlands (simulation only)	Developing engineering, planning, and environmental data for Environmental Impact Report / Environmental Impact Statement (EIR/EIS) document(s) and for right-of-way preservation and acquisition services, as requested by the Authority.
Legal Services	State Attorney General's Office	Legal services, including contract preparation and review; litigation support and representation; legislative review and technical support; regulatory support (e.g., for , environmental impact review); and other services as requested.
Fiscal and Personnel Services	Dept. of General Services and CalTrans	DGS – Fiscal services including payments, encumbrances, fund accounting, reporting, and contact with the State Controller's Office, Department of Finance, State Treasurer, and auditors, as required. CalTrans – Classification and compensation services, position management, and personnel transactions.
Information Technology	Paperless Knowledge; Dept. of Tech. Services; and Newlands	Desktop support; Network services; and Development of realistic visual and audible simulations (respectively).
Regional Directors	CalTrans (Carrie Bowen) and CalTrain (Bob Doty)	Developing and maintaining relationships with local residents, policy makers and CHSRA consultants; and building local communication strategies
Legislative Affairs	Steve Schnaidt	Advising on legislative strategies; researching and analysis transportation policy and budgetary issues affecting the Authority; preparing background/white papers; facilitating intergovernmental relations; assisting with and outreach efforts and responses to media and public inquiries.
Chief Engineer	Kent Riffey	Technical engineering and high-speed train support, including: review and evaluation of design, engineering, and operations documents produced by the Program Management Contractor; evaluation and monitoring of the project schedule, and assessment of the reasonableness of the project timelines and budget.
Financial Plan Consultant	Infrastructure Management Group	Preparing a financial plan, including funding sources and financing strategies, and related on-going technical support.

Interviews Yielded Some Common Views of Authority's Strengths, Challenges, and Opportunities

Strengths

- Authority leadership has successfully navigated policy and political waters to win the mandate to deliver the Project

Challenges

- Authority staff needs to grow and add highly-specialized expertise in order to meet the needs of the Project and protect the public interest
- Decision-making needs to be in hands of the Authority's Board and executive staff, not contractors
- Authority independence and oversight of contractors need to be strengthened
- Communication and transparency need to be enhanced
- Significant effort will be required to forge crucial partnerships with the federal government, local agencies, and the railroads

Opportunities

- Authority should leverage expertise and capacity of other state agencies wherever practical
- Innovative project phasing and procurement strategies will be needed to attract significant private sector financial participation, requiring new contracting approaches and more complex agreements
- Flexibility in hiring and compensation practices will be needed in order to attract and retain experienced executive leadership – including from outside the state civil service system

Role	Interviews
CHSRA Executive Staff	4
Consultants	4
Board Members	9
Stakeholders	9
Peer Review Group	4
Total	30

Trends Among Infrastructure “Mega-Projects” Reveal Reasons for Concern

Other large-scale, complex infrastructure projects provide lessons for consideration ¹

- Major cost overruns and schedule delays were prevalent
- Revenue forecasts often proved overly-optimistic
- Communication and transparency challenges were significant
- Risk analyses frequently failed to capture both probability of risk-events and magnitude of impacts
- Risk capital on the part of private parties appeared to improve the performance of projects
- Most projects failed to examine or “audit” their implementation performance on an on-going basis

Risks observed from other “mega-projects” are applicable to California High Speed Rail

- Completion (e.g., Technical, Construction, Interfaces, Operational)
- Financial (e.g., Markets, Funding Sources, Revenue Forecasts / Results)
- Institutional / Governance (e.g., Regulation, Social Acceptability, Political and Legal Requirements)

Many past “mega-projects” had sovereign sponsors, with “deep pockets,” so had fewer funding risks than currently are present for the California High Speed Rail Project

- Lack of a “deep pocket” partner makes effective project risk management a high priority for California

¹ Sources include: *Megaprojects and Risk*, Flyvbjerg, Bruzelius and Rothengatter, 2003; and *Decision-Making on Mega-Projects*, Priemus, Flyvbjerg & van Wee, 2008

The Organizational Assessment is Driven by Four Guiding Principles

The guiding principles emphasize the protection of the public interest

Governance and Decision-making in the Public Interest	Accountability and Transparency
<ul style="list-style-type: none">● Responsibility for decisions needs to be clearly vested in public officials● Oversight over consultants needs to be performed by public officials● Decision-making processes and documentation need to be timely, detailed, and accurate – to facilitate informed decisions	<ul style="list-style-type: none">● Accountability to the public and protection of the public interest must be central to the organization● Information and communication needs to fairly and objectively inform decision-makers, stakeholders, “partners,” and the public● Outreach needs to reach the general public and policy-makers throughout the State
Expertise and Institutional Capacity to Drive Project Implementation	Project Controls, Quality Assurance, and Risk Management
<ul style="list-style-type: none">● Executive leadership needs expertise and experience aligned with the technical requirements and status and scale of the Project● Leading practices in management structure and work environment will be needed to attract the “best and the brightest” to the Project	<ul style="list-style-type: none">● Strong internal program management and risk management culture and systems are needed to support success of the Project● Independent project controls and quality assurance mechanisms are needed “in-house”● Robust and continuing risk identification and management/mitigation mechanisms are needed

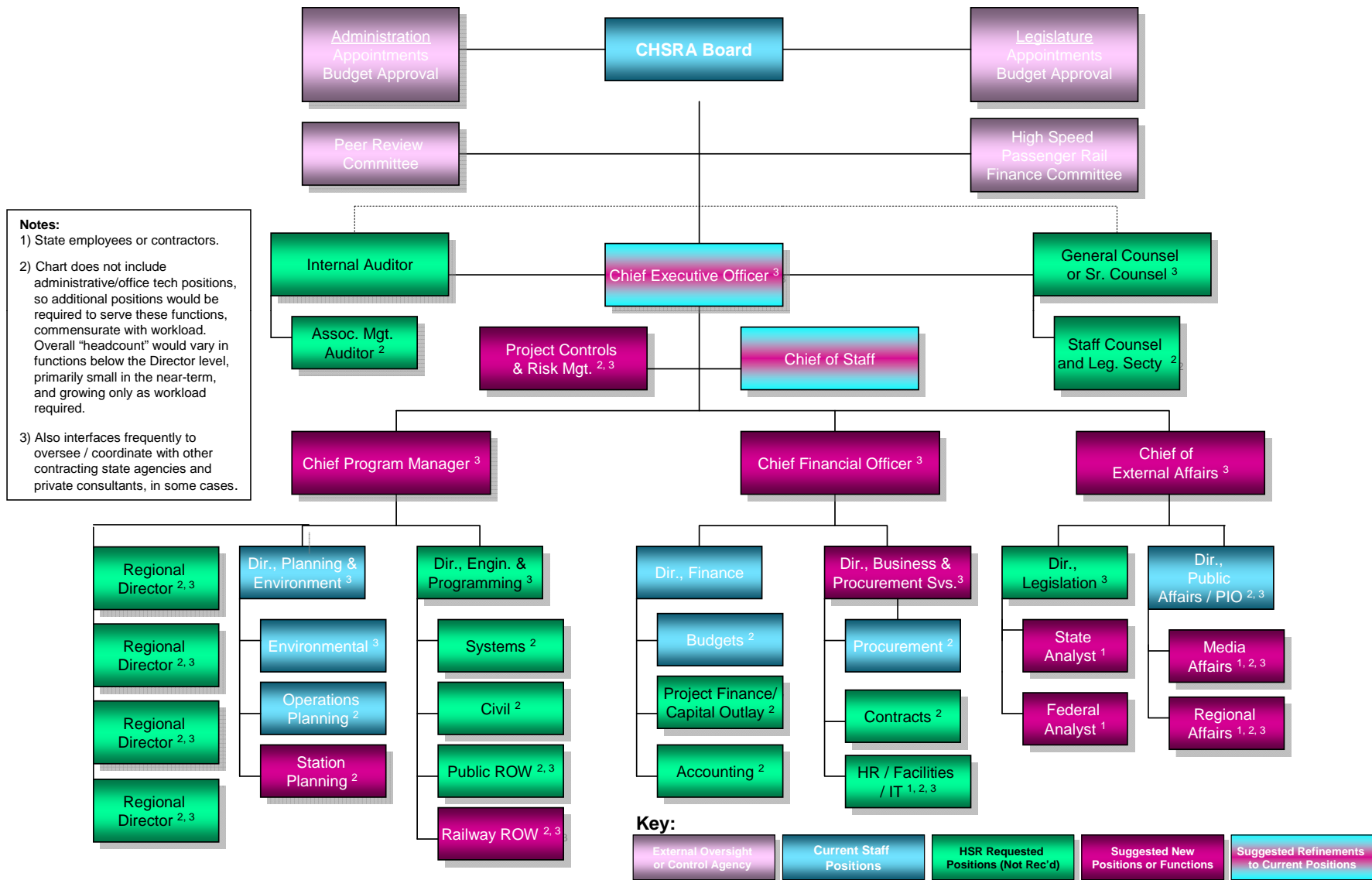
Authority Needs Enhanced In-house Staffing and Systems

KPMG’s observations demonstrate the need to enhance mechanisms to protect the public interest

Governance and Decision-making in the Public Interest	Accountability and Transparency
<ul style="list-style-type: none"> ● Staffing and oversight mechanisms are inadequate to ensure the public interest is fully protected ● The Board appears to need more in-depth, timely information to make well-informed decisions ● Staffing enhancements could improve decision-making 	<ul style="list-style-type: none"> ● The Authority needs a strong Internal Audit function ● Key stakeholders do not feel adequately informed ● Expanded outreach is needed to provide accountability and transparency – and to forge public consensus need for Project’s success
Expertise and Institutional Capacity to Drive Project Implementation	Project Controls, Quality Assurance, and Risk Management
<ul style="list-style-type: none"> ● Authority needs several additional in-house “specialists” on its executive management team in order to drive successful project implementation and funding strategies ● Flexibility in personnel and procurement practices will be needed ● Time is of the essence 	<ul style="list-style-type: none"> ● Authority needs an in-house team dedicated to independent Project Controls and Risk Management activities ● Authority needs robust, transparent, and credible in-house policies and procedures for all key functions and activities

Gap Analysis

New Executive Structure Would Address Areas of Greatest Complexity and Risk



Enhanced Executive Staff Would Provide Greater Expertise and Capacity

Several key functions will need strong executive leadership to ensure sufficient expertise and capacity to oversee the Project and protect the public interest

- **Chief Executive Officer** – Responsible for executive leadership of all Authority activities. Qualifications include strong knowledge of and demonstrated experience in: transportation planning, design and implementation, ideally in rail sector; advanced project management, budget and administration principles and concepts; and advanced marketing, media, and public relations principles and concepts.
- **Chief Program Manager** – Responsible for direction and oversight of program management / project management activities and facilitation of successful project/program delivery. Qualifications include strong knowledge of and demonstrated experience in: transportation planning, design and implementation, ideally in rail sector; and advanced project management, budget and administration principles and concepts.
- **Chief Financial Officer** – Responsible for direction and oversight of financing, procurement, and other business service activities. Responsible for facilitation of needed funding for successful project/program delivery, including communication with market participants. Qualifications include strong knowledge and demonstrated experience in: transportation finance; project budgeting and finance; government budgets and accounting; public finance; and innovative financing and procurement strategies, including public-private partnerships.
- **General Counsel** – Responsible for oversight of all Authority legal activities, including significant legal contracting with the State Attorney General's Office and private counsel. Responsible for strategic legal advice to Board and other executive leadership. Qualifications include strong knowledge and demonstrated experience in: state law; governance principles; and contracting, including innovative hiring and procurement activities.

Implementation Requires a Number of Important Actions

- Secure support from Administration, Legislature and key stakeholders for Authority's desired staffing and organizational structure
- Engage qualified search firm(s) or human resources consultant(s) to refine position parameters and assess competitive landscape
- Obtain necessary administrative approvals for desired position levels and compensation ranges; recruit best candidates (internal and external) to fill all key leadership positions
- Undertake an independent enterprise risk management assessment; implement an effective risk management program
- Secure other independent technical, legal, and financial advisors as needed to assist Authority leadership in fully assessing and demonstrating the feasibility of the Project
- Develop and implement strategic and tactical plans to secure the necessary private and public partnerships at federal, state, and local levels to implement the Project